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WHO'S WHO IN THIS ISSUE

LLOYD W. SIPHERD

Mr. Sipherd is Dean of the School of Business Administration at the University of Western Ontario. Taking office July 1st of this year, Mr. Sipherd resumes a close association with the university: he was for seven years (1929-36) on the faculty of the Department of Business Administration at Western. From 1937 to 1950 he was Vice-President and Treasurer of Hobbs Glass Limited, London. Born at Grand River, Iowa, Dean Sipherd received his B.A. from Simpson College and his M.B.A. from the Harvard Graduate School of Business Administration.

ERLE A. STEISS

Mr. Steiss is Manager of the Investment Department of the Canada Trust Company and Huron & Erie Mortgage Corporation. After graduating from the University of Toronto and the Harvard Graduate School of Business Administration he was Instructor in Accounting on the Harvard staff for two years. Thereafter he became associated with one of the largest investment trusts in Canada as Assistant to the President. In 1941 Mr. Steiss enlisted in the Canadian Army and during 1945-46 was on loan to the British Military Government engaged in work in the Allied control of the German banking system and of trade and industry in the Bochum area of the Ruhr, Germany. For the past two years Mr. Steiss has been a part-time lecturer in Finance in the School of Business Administration at Western.

VERNE H. ATRILL

Mr. Atrill is now completing his graduate work in economics at the University of Western Ontario, and will attend the London School of Economics in England next fall. Born in London, Ontario, Mr. Atrill received his B.A. in Economics from Western in 1949, and was Gold Medalist in the Department. His article reports initial findings on a continuing study inaugurated by the University of Western Ontario's Division of Business Research. Mr. Atrill has asked the *Quarterly* to make clear that the Division has given the project only its general direction, and that responsibility for the opinions expressed and the accuracy of the technical work lies solely with the author. Additional findings on this important project may appear in future issues of the *Quarterly*.

Who's Who in This Issue

ERNST A. DAUER

Dr. Dauer is Director of Consumer Credit Studies for Household Finance Corporation, Chicago. Formerly principal economist on the staff of the Federal Deposit Insurance Corporation (1937-1947 except for active service with the U.S. Navy), Dr. Dauer was in charge of research on bank earnings and consumer credit activities. He received his B.S., M.B.A., and Ph.D. degrees from Northwestern University and spent the year 1930-31 at Mannheim, Germany, where he lectured on economic and social conditions in the United States to the Graduate School of Commerce. Dr. Dauer is the author of "Comparative Operating Experience of Consumer Instalment Financing Agencies and Commercial Banks, 1929-1941", "Instalment Credit", "Instalment Credit Developments", "Consumer Buying", "The Place of Consumer Finance Companies in the Consumer Credit Field", and other books and articles published by the National Bureau of Economic Research, *The Harvard Business Review, Barron's* and other publications. He is a member of the American Economic Association, the American Statistical Association, and the American Finance Association.

WALLACE H. CLARK

Mr. Clark is Director of Industrial Relations of Ford Motor Company of Canada, Limited. Associated with the automotive industry for more than 25 years, Mr. Clark has been with Ford of Canada for eleven years. Recently, as Chairman of the Industrial Relations Committee, Mr. Clark advised the University of Western Ontario on the type of academic training in industrial relations to be offered by the School of Business Administration.

Book Reviewers: Gordon McIntosh, Donald G. Seebach, Sidney Kingsmill, Eric H. Johnston, Moffat R. Hill.

All are graduate students of the School of Business Administration, University of Western Ontario. The reviews were prepared as part of the required work of the Research course in the senior and graduate years.

THE
BUSINESS QUARTERLY

University Training for Careers in Business

Lloyd W. Sipherd
Dean, School of Business Administration
University of Western Ontario

Few subjects are so interesting or so controversial today as the relationship of university education to the business world.

The past twenty years have witnessed a vast change in the conditions under which business is conducted. Depression and war have materially altered the old concepts; government intervention in trade has expanded; business managements, once chiefly concerned with profits, are becoming increasingly involved with "human relations" and employee welfare; new political, social, and economic demands press upon the businessman from every side.

What can the university do to equip young men for business careers under these changed conditions? Dean Sipherd, who this year enters academic life for the second time after spending thirteen years in Canadian business, is uniquely qualified to answer this question. His article points up the growing significance of university training for business leadership, appraises the objectives and methods of such training, and stresses the shared responsibility of the university and of business to turn out "finished products" for business management.

ONE OUTSTANDING business educator put it very simply when he said that the primary aim of business education is to develop *competence* of students for lifetime careers in the management of business and economic affairs.

Notice the emphasis on the word "competence". There is a world of difference between the acquisition of knowledge and the development of skill in using that knowledge effectively and soundly. Let us start with this premise, then, that although the business student should acquire a command of knowledge, it is equally important that he develop the facility for using that knowledge in making decisions and getting things done.

Such a facility is becoming increasingly important in the business world. Our economy is becoming increasingly complex and the responsibility for such tremendously vital tasks as providing maximum employment and promoting economic stability must certainly call for trained judgment of the highest order.

Objectives of a Business Education

The academic program of a school of business should be so planned as to answer satisfactorily the following problems:

1. *What pedagogical technique comes nearest to fulfilling the requirement that competence be developed in the student of business?*
2. *Should the student be given an opportunity to concentrate his studies in a special field of his choice or should specialization be kept to a minimum so that the student graduates with a broad grasp of the major fields of business administration?*

Specialized Vs. General Courses

First, let us deal with the question of specialization. A great many people, including many businessmen, expect a graduate of a school of business to be a trained expert in a certain field, and it sometimes happens that a prospective employer, in looking over the graduating class, seeks to hire such an expert. It is the author's opinion that a program to train experts is not only unwise from the university standpoint but will almost certainly lead in the end to disillusionment both of the employer and the employee.

Of great importance is the fact that it is most difficult to predict what type of specialization a student needs. Few students have sufficient understanding of any particular business position or organization to make up their own minds about a choice of careers.

Take a look at the careers of a number of typical graduates who have entered business. Many of the more successful of them have almost certainly shifted from one area of specialization to another. As one

writer puts it, "The student who sets out to master these larger unforeseen opportunities in a changing world needs specialized knowledge of business less than he needs basic preparation that has wide application, preparation that helps him to learn from experience, and preparation that provides fundamentals with which he can find his way effectively in whatever situations he comes to face". [1]

The academic program of a school of business should be carefully geared to such a principle. This means that the course offerings should cover all major fields of business administration and be so presented as to permit the student to attain a clear understanding of the interrelationship of these areas of endeavour. This does not mean, however, that so-called "specialized" courses should be completely eliminated. These courses must be offered in order to permit some flexibility in the academic program, for certainly all students should have some leeway to do a certain amount of special studying in fields of their choice. However, such courses, offered as options towards the close of the course of study, should serve as a supplement to, not as a substitute for, the student's broader training in business administration.

It should be added further, that where a school of business offers an undergraduate course, in addition to a graduate, there should be provided ample opportunity for the student to participate liberally in the General Arts courses given by the university. Such courses assist rather than hinder the attainment of the over-all objective of providing training for the student which best prepares him to act wisely and effectively in whatever circumstances he finds himself once he has entered the business world.

Developing Competence

What can a school of business do to assist the student to apply his knowledge and experience effectively? This primary problem calls for a broad training in the analysis of problems, the appraisal of alternate courses of action, the understanding of human relations, and the development of the power of communicating his ideas and enthusiasm to his associates.

The Case Method of Instruction

To accomplish these skills in the classroom is not easy, but by far the most successful approach to the problem is the use of the case method of instruction developed by the Harvard Graduate School of Business Administration over a period of three decades. Working on the theory that one "learns best by doing", actual business problems written up in such a way as to supply the student with as much background information as possible, are assigned the classes. Class time is occupied prim-

1 R. D. Calkins, Former Dean, School of Business, Columbia University.

arily in analyzing the case so that the issues are clearly indentified and a course of action is worked out after consideration of possible alternative courses of action.

Problems in the Use of the Case Method

Without a doubt, this is the most difficult form of teaching ever devised. In the first place, it is no simple matter to obtain effective case studies. Quite aside from the problem of research effort which must be expended to obtain the basic information for the preparation of the case, there is the task of "writing up" the case in such a fashion as to make it effective. It must be complete enough to provide the class with sufficient detail to enable the student to "enter into" the business situation as though he were the man who must work out the problem. On the other hand, it must be brief enough so as not to be too burdensome from the reading standpoint with the attendant danger that the student will see only the trees, not the forest.

The development of Canadian case material is in its infancy. An increasing amount of time must be devoted by university teaching and research staffs to this task in the immediate future. It is hoped that business leaders in Canada will see the importance of this work and help by making available to those doing case-gathering work enough of the "inside story" so that live Canadian business problems can be handled in Canadian university classes.

An even more important reason why teaching by the case method is difficult is that the teaching technique requires a very special skill. In most courses taught with the use of cases lecturing is largely eliminated. The major emphasis is on student participation. The instructor must so direct the class discussion as to first get a clear definition of the issue or issues involved. (More often than not, the issue is not indicated in the written problem. Presumably, the student, in collaboration with a "discussion group" of other class members, has worked it out prior to coming to class.) The mere orientation of the thinking of the class as a whole on this point alone can prove stimulating and productive.

From this point on, the instructor is charged with the responsibility of directing classroom discussion in such a way that the students gain facility for analysis and appraisal of data for arguing the pros and cons of possible courses of action, and an appreciation of the impact of their decision on the company and those in the organization immediately affected.

Finally, the instructor must tie up the loose ends of a discussion at the close of the class, and make a contribution towards a full understanding of the principle or principles of business management involved in the problem. In a great many instances this gives him an opportunity

to "get across" to the students a point which just can't be grasped, except as it is applied to some actual set of circumstances studied in the case.

The Case Method as a Test of Competence

There are other considerations in the successful use of the case method of instruction, such as developing in the student the facility for doing supplementary reading to give him a proper grasp of the field of business administration involved. But it will suffice at this time to say that we now have a superior technique of business education which can go a long way toward developing competence in the student. Some students will fail completely to grasp this approach to studying principles of business. This failure may be a proper test to apply for eliminating those without the talents required of a business administrator. But, granting well prepared case studies and effective class leadership, it is believed that no other approach to business education can do as much for the student in developing the skill for utilizing his knowledge.

The Responsibility of Business

A business graduate, with either a B.A. or an advanced degree in Business Administration, should never be regarded by prospective employers as a finished product. The author has observed a great deal of misconception on the part of businessmen in Canada, who somehow have got the idea that a business graduate is prepared immediately to step into some form of executive responsibility. This is a dangerous line of thought at all times for the simple reason that most schools of business, such as that at the University of Western Ontario, intentionally de-emphasize the technical aspects of business management. Such training is the job of business and no one can do the job as well as business. For this reason, an attempt is made to impress prospective graduates with the limitation of their training and the need for a humble attitude toward their preparation for a career in business.

Businessmen have a responsibility to properly appraise the job which the university can do and to appreciate the limits to which its training can be carried. The university has a responsibility to business to perform these functions:

1. Accomplish a reasonable degree of screening of students, striving always to turn out men with better than average aptitude for carrying responsibility.

2. Provide a pretty thorough training in "thinking through" of business problems, a facility which is fundamental for executive leadership.

3. Give training in the art of expression, both oral and written—an art which is becoming increasingly important in business.

4. See that the business student acquires a rich fund of business knowledge, but without too much specialization.

5. Develop in its graduates a broad point of view as to the responsibilities business management must carry in regard to its relations with company employees, customers and the community in general.

From here, business must carry the ball.

How Business Can Train the University Graduate

There is a great diversity of opinion among businessmen as to what constitutes the best plan for training university men for their business careers. Here are some suggestions, keyed to situations in different companies:

1. If you have a regular training program, put the university graduate through it just as you would a non-university man. It will be his opportunity to learn about the company and to get acquainted with the organization.

2. If you have no organized training program, or if the one you possess does not involve actual experience for the trainee in the various divisions of the business, take the time necessary to permit him to actually work for a period in each division. All prospective employees cannot be so handled, but for men ear-marked for advancement, you will find such a policy will pay immense dividends. And don't be afraid that the university graduate will resent being put into overalls and given a laborious assignment. In most instances, this is the best possible training for him and he should realize it. Observe the great opportunity, for example, which such a plan has in giving a trainee an opportunity to meet company employees right down the line, to know how they think and feel, and to appraise their attitudes towards their company. Such an experience may well mean more to the advancement of a key man than any other single thing.

3. If the preceding steps are taken, it may be pre-supposed that the employer realizes the need for caution in the matter of rushing a prospective junior executive along in his assumption of responsibility. Once his basic training is completed, however, progress may be surprisingly rapid. It is at this stage that management should be particularly careful in keeping in touch with an employee's progress. A "sink or swim" attitude towards him can prove costly in terms of employee morale and of progress on the job. Above all, he should have an opportunity at all times to get help from senior staff members who are genuinely interested in steering him along the right course.

4. Finally, management should undertake to guide prospective executive talent in the proper direction. Many young men fail to understand their own leanings or limitations in terms of specific kinds of business positions. Gentle but positive guidance will go a long way towards assuring the company that its investments (which can be considerable) is not wasted in needless staff turnover.

Conclusion

The task of business education is the joint responsibility of the university and business. To perform its function properly the university should strive just as diligently to develop in the student the ability to utilize his knowledge skillfully as it undertakes to provide for the student the opportunity to acquire the knowledge which a prospective businessman should possess on entering his career. The university will fail to serve business satisfactorily unless it keeps the twofold objective constantly in mind and, at the same time, maintains a close liaison with the business world so that one can assist the other in every possible way.

The Problem of Private Company Surpluses

Erle A. Steiss
Manager, Investment Department
Canada Trust Company and Huron & Erie Mortgage Corporation

A very serious problem to the owner-businessman in Canada is the combined effect of income taxes and succession duties on the estate of an individual whose principal asset consists of shares in a private, or family corporation. Mr. Steiss examines this problem and discusses various methods which have been available to meet it, with particular reference to Class "A" financing.

NOT INFREQUENTLY executors are faced with the problem of administering the estate of a deceased person who has successfully built up a private or family business, has drawn out of the company from year to year only moderate amounts to pay for living expenses for himself and his family, and has left in the business the major portion of the earnings to finance the company's growth. In this manner a small original investment may have grown to very substantial proportions indeed and with an earning power of some magnitude. Where shares of such a company represent a large part of the estate of the deceased, it is often found that the estate does not possess other assets of a readily saleable nature (such as bonds and listed stocks) sufficient to meet succession duties in full; the will may not have provided for borrowing powers, or even if it did, it is not always possible to borrow sufficient amounts on the security of capital stock in a private company for whose shares there is no ready marketability.

Thus, for the purpose of raising the necessary funds to pay the duties the estate is often faced with the necessity of choosing one of several alternatives, each of which involves substantial sacrifices.

The Difficulty of Paying Succession Duties

First, all or part of the estate's equity in the company may be offered for sale; but this is often a difficult problem as it is not always possible to find ready buyers for small or moderately sized businesses at prices which are anywhere near the real value of the business as a going concern. Even if successful in effecting a sale, this means the passing into other hands of a business which the deceased has spent probably a lifetime in building up for his heirs; and in the event that the estate holds only a portion of the equity in the company, with other members of the family holding the balance, it may mean wholly new and outside

interests entering into the ownership of the business who may or may not work harmoniously with the other shareholders.

Secondly, a substantial part, if not all, of the accumulated surplus in the company could be distributed as a dividend; but the greater part of this accumulated surplus may be invested in bricks and mortar and the company may need all of its working capital in its business, thus making the payment of any substantial dividends impossible or undesirable. Even were the company in a position to pay such a large dividend, it would not provide a satisfactory solution to the problem in that the impact of personal income taxes on such a distribution would be extremely serious, inasmuch as income taxes and succession duties together might well consume a major portion of the entire estate. Then, too, the declaration of such a dividend would force other shareholders in the company, not in any particular need for immediate funds, into a high income tax bracket in the year in which the distribution was made.

Thirdly, consideration might be given to the winding up of the company and distribution of the assets among the shareholders. Apart from the objection already touched upon above; namely, that this means the liquidation of the business which the deceased built up for his heirs, there is an income tax factor involved which makes this action equally as undesirable as the declaration of a large dividend: under section 9(1) of the Income Tax Act it is provided "Where funds or property of a corporation having on hand undistributed income earned since the beginning of 1917 have, in a taxation year, been distributed or otherwise appropriated in any manner whatsoever to or for the benefit of one or more of its shareholders on the winding up, discontinuance or reorganization of its business, a dividend shall be deemed to have been received by each shareholder equal to the lesser of (a) the amount or value of the funds or property so distributed or appropriated to him, or (b) the portion of the aforesaid undistributed income that was or would have been payable to him on the winding up of the business at that time."

Nor does a loan to the estate from the company provide a satisfactory solution in that section 8 (2), as recently amended, states: "Where a corporation has, in a taxation year, made a loan to a shareholder, the amount thereof shall be deemed to have been received by the shareholder as a dividend in the year unless the loan was made (a) in the ordinary course of its business and the lending of money was part of its ordinary business, (b) to an officer or servant of the corporation to enable or assist him to purchase or erect a dwelling house for his own occupation, or (c) to an officer or servant of the corporation to enable or assist him to purchase *from the corporation* fully paid shares of the corporation to be held by him for his own benefit."

One of the first in a series of special tax relief measures for the

shareholders of private companies was provided in 1930 when an amendment to the Income War Tax Act enabled private companies to capitalize, free of income tax, all surpluses accumulated prior to the commencement of the 1930 taxation period; but this amendment continued in effect only until 1934, after which date all surplus accumulated subsequent to the passing of the original Income War Tax Act in 1917 again became taxable on any winding up, reorganization or capitalization of such surplus. A number of family corporations took advantage of this amendment and capitalized, tax free, their 1930 surplus either into the form of debentures or redeemable preferred shares. There is considerable evidence, however, to the effect that, while this opportunity existed for approximately four years, few companies took advantage of it, in many cases because of the fact that they were unaware of the amendment and the opportunity it presented.

The Relief Provided by the Ives Regulations

With the sharp increases that occurred in personal income tax rates during the period 1930-1945, together with increases in Provincial Succession Duty taxes and the additional burden imposed by the enactment in 1941 of the Dominion Succession Duty Act, it became more and more evident that the heirs of an estate whose principal asset consisted of shares in a private company could not possibly hope to retain the business they were inheriting unless there were other substantial and readily saleable assets. It was to deal with this among other taxation problems, that the Ives Royal Commission was set up in 1945.

The Commission held that while there was no difference in the theoretical taxation treatment accorded the shareholder of a closely held corporation and the shareholder of a public company, there was, however, a very real practical difference in that in the case of the closely held corporation a day usually came when personal income tax was levied on all the earnings of the corporation which had been left in the business and had not been distributed as dividends. That was when, by reason of the death of a shareholder or by reason of the principal shareholder attempting to retire from active work and disposing of his shares, the business was wound up and the assets were actually distributed to shareholders or were sold to another company, in both of which cases the proceeds were subject, under Section 9 (1) to the extent of the company's undistributed surplus, to personal income tax in the recipients' hands. This is in sharp contrast to the situation which exists in the case of change of ownership of the shares of a publicly-owned company which can be readily sold on recognized listed or unlisted markets without any attendant tax problems.

As a result of the recommendations contained in the Report of the Ives Commission, Part XVIII of the Income War Tax Act was passed

by the House of Commons in December, 1945. By terms of this special legislation, a private company (defined as one with not over 75 shareholders at any time since April 29, 1941, exclusive of employees or ex-employees) was permitted to pay a special tax on the distribution to its shareholders or capitalization of all its surplus accumulated from January 1, 1917 to December 31, 1939, less dividends paid therefrom. This special tax was in lieu of the regular personal income taxes which would otherwise be payable by individual shareholders on receipt of dividends paid out of such surplus, and was calculated to approximate the tax that would have been paid by the shareholders had the surplus been distributed in the form of ordinary dividends year by year as earned.

Private companies had the right of electing on or before December 31, 1947 whether or not to be assessed and pay a tax under the so-called "Ives Regulations." Upon payment of the tax, the 1917-1939 surplus, less dividends already paid therefrom, became tax free and could be paid out to shareholders in one lump sum or in instalments as the company saw fit, subject to certain restrictions.

The Relief Provided by "Class A" Financing

While the Ives Regulations alleviated the problems of the owners of a great many private companies, there remained a large number of such companies which still had pressing tax problems on their hands. The Ives Regulations did not deal with surpluses accumulated prior to 1917, the date of the original Income War Tax Act, or those accumulated subsequent to 1939. It is of interest to note that dividends paid out of a surplus built up in 1916 or previously are taxable in the shareholders' hands, but distributions out of such pre-1917 surplus are not taxable in winding up.

A much more important problem rests, however, with the many companies who had no earned surpluses to speak of as at December 31, 1939 but which have built up substantial surplus balances since then. The Ives Regulations do not apply in their case nor do there appear to be any other provisions in the Act which take their problem into consideration. Under these circumstances, many of these companies together with others which may have taken advantage of the Ives Regulations but which have already built up substantial surpluses since 1939 and still others which for one reason or another did not make a distribution under the Ives Regulations, have turned to "Class A" financing as a solution to their problem.

The Reason for "Class A" Shares

In contrast to the Ives Regulations and earlier attempts at legislative relief which permitted shareholders to tap a company's earned surplus on terms advantageous to the shareholders, Class "A" financing does not affect a company's surplus position; nor does it take any funds

out of its treasury. It is merely a means whereby shareholders can raise a substantial amount of cash by re-capitalizing the company into two classes of stock, selling one class to the public, and retaining the other class in which rests the voting control.

An Illustration of "Class A" Financing

Let us assume a case where Mr. AB and members of his family hold all the shares in a private company and that they are desirous of raising cash for the purpose of providing for succession duties or for other purposes but have few or no other assets apart from the holding in their private company—XY Co. Ltd.; that an original investment of $250,000 was made in the XY Co. Ltd. years ago by Mr. AB and members of his family or their forefathers and through the retention over the years of sums totalling $1,250,000 in the business to finance its natural growth, the net worth of the company has grown to $1,500,000. The capital stock consists of 10,000 shares of no-par common with a stated value of $25 per share; and the balance sheet appears as follows:

Assets	$1,650,000	Liabilities	$ 150,000
		Capital Stock: Issued—10,000 shares common stock, no par value.	250,000
		Surplus	1,250,000
	$1,650,000		$1,650,000

Let us assume further that after giving due consideration to the earnings record of the XY Co. Ltd., the nature of its business, and its outlook, Mr. AB and members of his family come to the conclusion, after consultation with their financial advisors, that an amount up to $500,000 could be raised by the sale of a security carrying a preferential dividend of say 5%, which would require $25,000 annually.

Not all companies lend themselves to Class "A" financing. It often happens that the company is too small to warrant public financing; its earnings record may not be such as to make it attractive to investors or to make it feasible for the company to issue a fixed dividend bearing security. Assuming, however, that the XY Co. Ltd. lends itself satisfactorily to Class "A" financing, one of the next steps will then be to subdivide the existing 10,000 shares common stock of no par value into new class "A" and Class "B" shares both of no par value.

There are a large number of ways in which this subdivision can be effected; but, for this case, let us assume that it is desired to offer the Class "A" shares to the public at $20 a share, carrying a preferential cumulative dividend of $1.00 a share, with the "A" shares having no

voting rights except when the dividends are in arrears for, say, six quarterly payments. To raise $500,000 through the sale of Class "A" shares at $20 a share, will necessitate the creation of 25,000 Class "A" shares; and in order to create 25,000 Class "A" shares out of 10,000 existing common shares, a split of 2½ for 1 is required. For the Class "B" shares a larger ratio is desirable so that, for purposes of assuring voting control for the holders of Class "B" stock, there will be a larger number of Class "B" shares outstanding than Class "A" shares. Accordingly, the existing common shares are split into Class "A" and Class "B" on the basis of 2½ shares of Class "A" and, say, 5 shares Class "B" for each share common stock outstanding. This will result in a new capitalization of 25,000 shares Class "A", no par value, and 50,000 shares Class "B", no par value.

Upon the passing of a by-law and the issuance of Supplementary Letters Patent the balance sheet will appear as follows:

Assets	$1,650,000	Liabilities	$ 150,000
		Capital Stock Issued— 25,000 shares Class "A" no par value & 50,000 shares Class "B" no par value.	250,000
		Surplus	1,250,000
	$1,650,000		$1,650,000

It will be noted that neither the assets nor liabilities position of the company has been changed; nor has its surplus position been altered. The only change is that the same shareholders, instead of holding 10,000 shares common stock no par value appearing on the books at $250,000 or a stated value of $25 per share, now hold 25,000 shares Class "A" no par value and 50,000 shares Class "B" no par value which together appear on the books of the company at the same figure of $250,000 or a stated value of $3.33 per share on the combined "A" and "B" shares. In both cases the same individuals own the whole of the company, the only change being in the type of security representing their ownership.

The Effect of This Financing on the Shareholder

The shareholders are now in a position to offer to the public all or part of their holdings of Class "A" shares. The sale is made by the shareholders—not the company—and the proceeds go into the shareholders' pockets. The result of this operation is that the shareholders have realized a substantial amount of cash but still retain voting control.

They have outstanding, ahead of their Class "B" shares, a senior security from point of view of dividend priority, and the company is affected only to the extent that it now has a class of stock outstanding which carries a preferential dividend. There are many variations indeed to the types of Class "A" that have been offered: the preferential dividend may be cumulative or non-cumulative but is usually the former; it may be participating or non-participating; it may or may not be convertible.

It is thus seen that through the medium of Class "A" financing, shareholders are enabled to sell a substantial portion of the equity in their company without losing voting control and without incurring a tax liability. It is for these reasons that there has been, in recent years, so much Class "A" financing.

Why Class "A" Shares Are No Par Value

In the example used above, the net worth of the company was $1,500,000 consisting of capital stock $250,000 and surplus $1,250,000. Any form of re-capitalization which would have the effect of transferring any portion of the surplus to capital account would immediately be taxable under Sections 9 (2) and 9 (3) of the Income Tax Act. For this reason it is imperative that the new capitalization must appear on the books at a figure not in excess of that at which the old capital stock appeared. Herein lies the reason why the Class "A" shares that have been appearing on the market in recent years are of no par value.

Suppose that in the illustration used above where 25,000 Class "A" shares were offered to the public at $20 the shares had been given a par value of $20; this would have necessitated showing these Class "A" shares on the books at a total of $500,000 which apart from any stated value to be allocated to the Class "B", would necessitate the transferring of $250,000 from surplus account to capital stock account. This would immediately raise a tax problem, in that it would constitute a capitalization of surplus which for tax purposes would be equivalent to the payment of a dividend.

Why Class "A" Shares Are Non-Redeemable

It is for entirely similar reasons that Class "A" shares are non-redeemable. Supposing that the Class "A" shares used in the above illustration were made redeemable at $20 a share. Not many investors could be induced to buy the stock for the reason that, when they are redeemed, a substantial appropriation out of surplus to capital account would have to be made by the company to cover the difference between the stated value of the shares and the redemption price, and to the extent of such appropriation a considerable proportion of the redemption price would be taxable in the hands of the shareholder. In the illustration used, there is a total of 75,000 combined Class "A" and Class "B" shares outstanding

which appear on the books at $250,000 or at a stated value of $3.33 per share; therefore, in the event of any Class "A" shares being called at $20 a share, the holder would be taxed on $16.67 of such proceeds for the reason that for every share redeemed at $20 an appropriation of $16.67 out of surplus would be required.

Why Class "A" Shares Are Usually Not Preferred as to Assets

It is for a similar reason that Class "A" shares created for the above outlined purposes are usually not preferred as to assets in winding up or re-organization. On winding up or re-organization the distribution in any form of the property of a company is deemed to be the payment of a dividend to the extent that the company has on hand undistributed income. This means that in the event of any proceeds over and above the stated value of the shares (or $3.33 per share to use the above illustration again) being available on winding up, such excess would be taxable; and inasmuch as the preferred shares had a priority in liquidation it is these which would bear the brunt of the tax liability because, under the Income Tax Act, as the liquidation of assets continues and where the preferred shares have no par value, distribution is, for tax purposes, first made out of surplus account and distribution out of capital is made only after the entire surplus has been distributed. The Class "B" shareholders would incur a tax liability only to the extent that there remained any undistributed surplus balance after the preferred shareholders had been paid.

Thus it is seen that if Class "A" shares were made preferred as to assets a situation could easily arise where the owner of a private company contemplating winding up and liquidation could materially reduce or even escape tax liability entirely on winding up by subdividing the company's common shares into Class "A" and Class "B" with the Class "A" containing a preferential provision in the event of winding up.

New Tax Relief

In June, 1950, owners of private companies were cheered by the passing by Parliament of an amendment to the Income Tax Act. Under this amendment all private company surpluses accumulated and on hand at the end of the 1949 taxation year may be capitalized. In addition, all private company profits earned subsequent to the 1949 taxation year may be capitalized to the extent of equivalent amounts paid from year to year in dividends.

A tax of 15% must be paid upon all amounts so transferred to the company's capital account. Inasmuch as this rate of tax is substantially below what in most cases would be normally chargeable upon large distributions of surplus to shareholders, it is expected that the owners of many private companies will take advantage of this new legislation.

The amendment to the Act has aroused enormous interest and in fact, upon reasonable analysis, it seems difficult to over-emphasize its beneficial effect upon private companies.

It is not yet possible to describe specifically all methods whereby the amounts capitalized may be removed from the private company into the hands of its shareholders. One method, presumably, would be to wind up the company and distribute the assets. However, this is a drastic step and it is hoped that other means will be permitted such as, for example, the capitalization of the surplus and earnings in the permitted amounts into redeemable preferred shares, followed by the redemption of these preferred shares at such times and in such amounts as may be deemed desirable by the shareholders.

Conclusions

From the above the following facts are apparent:

First, that considerable tax relief was afforded to owners of private companies by the Ives Regulations.

Secondly, that the Ives Regulations left unsolved the problem of surpluses accumulated since 1939.

Thirdly, that "Class A" financing was not a complete solution, because not all private companies lend themselves to "Class A" financing.

And lastly, that an amendment to the Income Tax Act passed by Parliament in June, 1950 is expected to bring new and substantial relief to this problem.

Canadian Business Fluctuations: A Mirror of U. S. Activity?

Verne H. Atrill

After demonstrating the natural relationship between the Canadian and U. S. economies, Mr. Atrill speculates on the influence of this relationship upon increasing instability in Canadian business and challenges Canadian businessmen to meet this problem.

BASIC to many Canadian business problems is the relationship our economy bears to activity in the United States. Canadian American business relationships are here analysed for three separate periods, and both current and long-term trends in Canada-U.S. trade are examined. It is concluded that increasing instability in Canadian business may be partially due to relationships with the U.S.; but the problem can be solved, if Canadian businessmen will face it squarely.

Some Misconceptions Based on Canada's Three-Cornered Trade

Many Canadians feel that they have the answer to our situation before any research has been done. It is common to hear businessmen base arguments as to business prospects upon the assumption of perfect correlation between the Canadian and American economies, merely adding that the friction existing over any border causes Canada to lag slightly. The United States is pictured as the cause and Canada as merely the effect. Or again, there are Canadians with an eye to our trade with Western Europe who would state the case differently. They would point out that our business fluctuations bear a high degree of correlation with certain European countries, notably the United Kingdom, and that it is in this area that we must look for the cause-effect mechanism that will perfect our devices for prediction.

But it is by no means true that Canada shows any such simple relation to either part of the world for anything but the briefest period. Indeed, where a trading nation such as Canada has a three-cornered trade, the causes and the effects become indistinct and any opinion based upon too strong a statement of one or the other case must be viewed with great suspicion. Canada does **not** show a clear-cut effect of either United States or British business conditions. Some of our movements must be labelled autonomous in the sense that they began here for purely domestic reasons. In other cases our fluctuations have followed a world movement, and in still others we seem to have been merely a part of the United States economy.

A Canada-U.S. parallel may be drawn, but with limitations. As is well known, the United States because of its size, its different industrial dimensions, and the diversification of its products, is by no means a unit. In nearly every issue of the U.S. Department of Commerce *Survey of Current Business* some account is taken of the time it takes for a business movement to spread its fingers out of the East (if it started there), and move through the other states. In many respects, the composition of the Canadian economy is much like that of a mid-western state, and from pure reasoning we might expect United States changes in business activity to get to us at about the same time as they reach the more inactive mid-western states. But this states the case much too simply, and indeed seriously underestimates the efforts of the Canadian government to influence business conditions.

Pre-War Relationships, 1935-38

In the 48-month period of partial recovery, 1935-38, correlations struck between Canadian and American Monthly Manufacturing Production Indexes showed a considerable weighting of the scales in favour of those who view Canada as simply the effect of American activity.[1] With Canada lagging two months behind the U.S., the correlation between the two indexes was very high (.86 of a possible 1.00), dropping slightly (to .84) for a three month lag and from there on dropping quite quickly as the lag increased. In a comparison of indexes for the same month, the correlation was only .47, and in trials with Canada leading the American scene, relationship ceased to exist at a three month lead. In short, in the period immediately preceding the war, Canada, at least in the manufacturing industries, did seem to follow the activity of American industry, allowing about two to three months for lag.

War Period Relationships, 1939-45

As we move into the war period, this pattern disappears. The rate of adjustment of the Canadian economy to the U.S. economy becomes almost instantaneous, when there is adjustment at all. That is, there was now no lag of more than one month, but there was a lower degree of correlation, reaching a high of .57 when indexes for the same month were compared. It must be remembered, however, that war-time statistics are not particularly reliable for comparison purposes, and it is probable that the Canadian data were understated, causing the coefficients to be somewhat lower.

Post-War Relationships, 1946-49

With the conclusion of the war and the beginning of the third

1 The opening phases of the study led quickly to a maze of statistical calculations (details of which are not contained in this article), and it is from them that much of the following information is drawn. Government statistics have been used throughout and a word of thanks must be added to the Dominion Bureau of Statistics for its kind co-operation in making readily available somewhat more complete statements than are contained in its publications.

period of our analysis, all vestiges of correlation that would be at all meaningful seem to disappear. As far as the study went, there appeared to be an almost complete perversity between fluctuations in the two countries for this post-war period.

Government trade policies may explain much of this perversity. Logic indicates that if the government of either country does not interfere with either economy to a large extent, there should develop between the countries a fairly regular pattern, founded upon the various institutional factors involved, such as American ownership in Canada and similarity of tastes. In the period immediately before the war the Canadian government did not make itself felt nearly as much as it has since the war, and it perhaps is not overstating the case to suggest that one of the effects of this greater governmental activity has been to eliminate much of the previously established pattern of relationship.

There can be no question that the conscious effort on the part of various governments to eradicate unbalanced trade with the dollar area has been a deciding factor in the upset of predictions based on pre-war premises. That our sensitivity to these efforts might outweigh for long periods our sensitivity to American business fluctuations (which are probably very autonomous) is quite possible—indeed probable, in view of the work done by Gilbert Jackson and others to emphasize the importance of world trade to Canada.

Still it is true that we should not lose sight of the American influence merely because it is not now to be observed readily. The price break in the United States which started in December, 1948, indicates some possibility that American conditions can have a perverse effect on Canada. An increase of American government spending, to offset falling prices, cannot help but enhance American demand for some Canadian products; and it is quite possible that Canada may experience rising price levels at the same time that the American government is just slightly failing to hold its own prices stable.

The Composition of Canada-U.S. Trade

Since government control can only work itself out through economic channels the investigation moved from a detailed analysis of the production indexes of the two countries to a study of Canada's trade with the United States. It was felt that any further comparative study of the two economies would be unprofitable until a vast amount of data had been collected about the hidden characteristics of trade with our southern neighbour. An analysis was begun of Canada's trade balance with the United States, and long term trends, going back to 1919, were extracted from import and export figures published by the Dominion Bureau of Statistics.

Trends of Trade in Principal Industries

Constructing a weighted export-import index based on the composition of our trade with the United States gave a reasonably accurate statement of total real trade which formed the basis of projecting long-term trends in the trade of principal industries. Below is a summary of the trends which evolved from the study.

EXPORTS AND IMPORTS —1919-1940

Group		*Rate of Climb or Fall*
Total Exports	Plus	increasing proportion
Total Imports	Minus	decreasing proportion
Agricultural Products		
Exports	Plus	increasing proportion
Imports	Minus	decreasing proportion
Fibres and Textiles		
Exports	Minus	decreasing proportion
Imports	Minus	large decreasing proportion
Animal Products		
Exports	Minus	decreasing proportion
Imports	Minus	large decreasing proportion
Iron and Its Products		
Exports	Minus	decreasing proportion
Imports	Minus	decreasing proportion
Non-ferrous Metals		
Exports	Plus	large increasing proportion
Imports	Minus	decreasing proportion
Non-metallic Minerals		
Exports	Plus	increasing proportion
Imports	Minus	decreasing proportion
Chemicals		
Exports	Plus	large increasing proportion
Imports	Plus	increasing proportion
Wood		
Exports	Plus	large increasing proportion

As can be seen from this table, with few exceptions (notably chemicals), our real imports have tended to decrease over the period studied, which extended only to 1940, the last year of limited government control. Exports have on the whole shown an increasing tendency, the greatest rate being found in non-ferrous metals and in wood and its products.

Long-Term Trends in Exports

Non-ferrous minerals and wood products together make up the bulk of United States purchases in Canada, and show the largest rate of increase of any of our exports. The pulp and paper industry of course

provides the core for the latter, and nickel and aluminum a large part of the former. The increasing importance of these two elements in the Canadian balance of trade has been readily observed in the present era of dollar shortage, with as much as one half of our dollar earnings for some months of 1948 going to the pulp and paper industry alone. It seems reasonable to assume that this one-sidedness in the industrial breakdown of our exports is, in short periods, and also in periods of fewer controls, a de-stabilizing influence.

Long-Term Trends in Imports

The continuing political instability in Europe provides us with a partial explanation of the increasing trend in exports. Security of payment in negotiable funds and many other related factors make the American market appear more favourable to us. In addition there are the many arguments arising from our more or less common culture, which has tended to give the industry of the two countries a common structure. And lastly, we cannot forget that many Canadian firms are American owned, and that reasons other than the simple "greatest profit" exist for a good part of the trade connection.

Our imports are much more evenly spread across the industries, although they are heavily weighted in favour of fully manufactured goods. This does not, however, make for stability in the balance of trade nor add to stability of employment even in times of no government control, for any large influence from outside the U.S. that hits our exporting industries, causing expansions or contractions, must sooner or later be felt in our imports in the form of increased or decreased orders for productive equipment from the United States. That is, the linked demand for imports and exports with the United States forces us to consider them together.

The largest part of our imports comes from the non-metallic mineral industries and ferrous products. Because industrial materials are our principal import there is reason to believe that the major area in which American effects are felt on the Canadian economy is in the rate of investment in fixed plant. By adjusting the rate of interest, or by effecting changes in consumer prices, the Canadian government can largely obviate the cost element of investments; but in those industries where investments are based upon expectations with regard to the American market, such as the pulp and paper industry, government interference is very difficult. When the problem of resource conservation is considered, it is easy to see the possibility of a government policy in this field that is at odds with the dictates of the American market. In the pulp and paper industry there is the additional problem of discontinuity in the investment function; *i.e.,* very large investments must be made (in some cases an entire new plant is needed) to obtain any sizeable

increase in production. Although this is not necessarily the case in all industries depending to a large extent on American demand, it is an element making for instability in our balance of trade.

Factors Pointing to Increased Instability in Canada

In an earlier part of this article, the influence of the Canadian government was presented as a de-stabilizing influence upon what appeared to be a definite relationship between manufacturing production in Canada and in the United States.

There is reason to believe that government control in Canada cannot eradicate the American influence on Canadian business activity. Two factors are mainly the cause of this. One is the increasing importance of the American market to a few Canadian industries, which are almost part of the American economy; *i.e.*, they rely upon what is essentially a consumer demand in the United States. The other is the theoretical consideration that within certain limits, the price of capital goods, and the net percentage of return on investment is influenced by American business conditions. Any long-term effort at control of our trade balance, or indeed, any autonomous movement in Canada, must fly in the face of these two influences.

At the same time, Europe cannot pay for our balancing exports in American dollars, or in funds that are readily convertible into American dollars. The Marshall Plan, in attempting some cure of this situation, has given Canada an aura of prosperity that tends to obscure the real problems underlying the national income. An increasing one-sidedness in our trade connection is one of these problems. Another real problem is that the old European market of pre-war days probably provided sufficient inelasticity of demand to compensate for the strong position the United States appeared to be filling in guiding, to a large extent, the rate of Canadian investment. Much of the European market is now unable to pay, and that it will be restored with quite the same rigidity in the face of Canadian price changes is purely a matter of conjecture. Argument could be presented that until the European standard of living returns to pre-war levels and higher, we shall hold a strong bargaining position with that area. But for some time at least, payment in funds that will meet our deficit with the United States will not be forthcoming. The Marshall Plan is, of course, our saviour at the moment.

The recent action of the British government in regard to food contracts cannot be taken lightly. Indeed, a tendency to increased soft currency buyings on the part of Europe has been under way ever since the end of the war. This tendency must lend elasticity to European demand for many of our products, and in view of what appears to be an increased inelasticity of Canadian demand for American products, our road will by no means be easy. Europe is not likely to remain dor-

mant while we thresh out our problems, and no assumption can be made that it will.

The tourist from the United States has saved us before and even now is an important element in our balance of trade with the States. In this area there is much that the government can do, but the sharp influence of Canadian prices on American demand for this "product" must be emphasized. Further, the level of American national income is exceedingly pertinent to the matter. The favourable exchange rate lowers our prices of course, but it is a vast oversimplification to regard a free exchange as a panacea for our ills. The building up of a more rigid American demand seems to be a much better approach. The individual Canadian company making such an attempt probably stands to gain over the long period.

Summary

The argument, then, has been: the Canadian economy has a natural relationship to the American economy, but government action in both the United States and Canada has tended to obscure American influences. Neither government has necessarily interfered with situations that would have been handled better without interference, because there are relationships existing between the two countries which seem to tend towards an increasing instability in Canada. Among these relationships are: the relatively strong bargaining position held by the United States in determining, to a large extent, the rate of investment in Canada; the sensitivity of American demand for many Canadian products to Canadian prices; the apparently large influence of American national income upon American demand for Canadian goods; the possibility of an increasing elasticity of European demand for Canadian exports, and lastly, the increasing one-sidedness of our exports to the United States.

There is some possibility of the value of basic commodities gaining relatively to manufactured products; *i.e.*, the terms of trade might move in favour of the former. In the long haul Canada would probably gain by such a movement, unless by that time manufacturing had completely out-run more basic production in Canada. This is largely conjectural, however, and it would be dangerous to place one's hopes upon such a movement.

In short, a problem may be said to exist for Canadian business which is not beyond solution by each company acting individually, to give Canadian products qualities that will make them more rigidly demanded in the United States. This action would not necessarily mean greater profit (indeed it might mean less), but it would mean greater stability, so long as United States' prices and national income moved together closely. The need for government control of our balance of trade would then largely disappear.

The Case For Consumer Credit

Ernst A. Dauer
Director, Consumer Credit Studies
Household Finance Corporation, Chicago

The use of personal credit has increased impressively in the past twenty years and will, in the opinion of Dr. Dauer, continue to increase in the immediate and long-term future with a corresponding rise in the standard of living.

TWO characteristics of the North American way of life mark off the United States and Canada from practically all of the rest of the world. The first is the high output per worker which permits a high rate of real wages. The second is the widespread enjoyment of a high standard of living. That standard of living is unique in the large extent to which it is represented by consumer durable goods.

Many factors, combined, have produced that unparalleled economic progress. Industry, skill, knowledge, and more efficient machinery and processes have brought an abundance of the good things of life, accompanied by an almost continual reduction in their cost. The part which improvements in economic organization have played in providing the funds necessary to large scale production and distribution has been generally recognized. It has been recognized also that the high output per worker and our high standard of living have been dependent upon the assurance of a sustained widespread market to absorb the abundance of goods and services produced. *But the role which consumer credit has played and must play in the maintenance of widespread markets has not been recognized to the same extent.*

The Changing Attitude Towards Debt Assumption

A century ago, there was a widespread fear of debt. This was probably a carry-over from the harsh treatment given defaulting debtors in earlier years. It was also the outgrowth of a predominantly agricultural economy with its self-sufficient families. This attitude held in the field of business throughout most of the transition period to an industrial economy. Business firms were largely single proprietorships and partnerships. Except for short-term borrowings, they were financed entirely out of the owner's investment and retained profits. As a result, growth was limited.

The corporate form of organization, which came into widespread use only after the middle of the 19th century, broke those chains. It

provided limited liability for shareholders, which induced many individuals to combine their savings and supply a larger accumulation of capital funds. It also brought about a different attitude toward the assumption of debt.

The Futility of "Doing Without"

The "New England method" of financing business avoided debt and permitted acquisition of assets only out of savings or retained profits. Consumer finance companies know how that philosophy influenced the wage-earner's attitude toward debt. It was a philosophy carried over from a predominantly agricultural society, with its self-sufficient families, to urban living; the emphasis on avoidance of debt caused the thrifty family to live a lifetime of "doing without" in order to save money.

The futility of such a philosophy — for the average person — was recognized first in the purchase of homes. Most people have long realized that the average family could acquire a home only by paying for it over a long period of time. Thus they recognized the justifiable use of credit for such a purpose. Generally speaking, building and loan associations were the only type of lending institution which recognized from the beginning that payments for a home had to be tailored to the buyer's income and spread over a long period of time. It was only after the disastrous foreclosures of the early 30's that the amortized home mortgage became universally adopted in the United States.

In the United States and Canada we customarily say, "I bought a house yesterday", as soon as the contract is signed and the down payment is made, regardless of how small that down payment may be. But the Britisher would say, "I am buying a home", and would continue to say it until the last penny had been paid. The choice of words of the Britisher reflects, of course, a greater precision of expression. It also implies a recognition that the purchase of a home requires too great an outlay for the average person to make in cash. The recognition of that fact *with respect to all major durable goods* is highly important if we are to think straight with respect to consumer credit. The important question to examine before reaching a judgment on how appropriate any particular transaction is, is *not* whether the purchase is made for cash or on time, but whether the purchase is a sound one in relation to the scale of living, the present and future income, and the management of that income by the individual.

Why The Average Family Must Amortize All Major Purchases

The average family today must use credit, amortized out of income, to be able to acquire all *major* durable goods. That fact is still not recognized generally by those who are not themselves in that position. The Survey of Consumer Finances made by the U.S. Federal Reserve Board early

in 1949 provided the latest reliable information on this subject. That Survey was related to "spending units" which consisted of persons living in the same dwelling and related by blood, marriage or adoption, who pooled their incomes for their major items of expense. Thus a spending unit is about the same as a family, although when there are unmarried children who work, and live at home, there is usually more than one spending unit represented in a family. That Survey reveals that in the United States over 70% of the spending units with a yearly income of less than $3,000 have either no liquid assets, or less than $500. This is the total of their war savings bonds, checking accounts, and savings in banks, postal savings accounts, savings and loan associations and credit unions. The Survey also showed that well over one-half of those in the $3,000 to $5,000 income bracket had liquid assets of less than $500.

About 85% of the spending units in the United States, or 43 million, have an income of less than $5,000. This 85% comprises the mass market which has made mass production possible. The figures show that almost 2/3 of that 85% do not have an adequate reserve for a rainy day; thus the mass demand is largely dependent on consumer credit for all major purchases. Included within those salary brackets are almost all of the newlyweds and the veterans. It thus includes basically all of the families which have an active need for the products of industry as contrasted with families in which the wage-earner is approaching retirement age, and has already accumulated major durable goods.

The use of credit to acquire major durable goods is completely sound. When a family buys a refrigerator, or a car, or furniture, it actually purchases an extended period of services covering five or ten or more years. Frequently the purchase of such a durable good eliminates the need for alternative services which might cost as much as, or more than, the instalment payments; *e.g.,* the cost of ice eliminated by the refrigerator, or the cost of public transportation, replaced by the automobile. It is perfectly reasonable, therefore, for the family to spread the payments over a period of time. When such durable goods are owned free and clear at the end of one, two, or three years, their purchase on credit has been an act of real savings in an amount which would not have been saved in any other manner.

How Consumer Credit Has Raised The Standard or Living

Consumer credit has almost single-handedly transformed the character of our standard of living. It alone has made possible the widespread acquisition by average families of major durable goods. That is the unique characteristic of the North American standard of living. In fact, instalment credit has been described as one of the great inventions

of the modern age, which will rank in history with the invention of money and the promissory note, because it has made it possible for the average family to save and to add to its net worth in the form of durable goods.

It is a mistake to say that the additional costs of financing purchases of durable goods simply reduce purchasing power which, through savings, would otherwise be available. The automobile companies state that large scale production (made possible through instalment credit) has reduced prices far more than the carrying charges involved in the use of credit by the consumer. It is also a mistake to say that consumer instalment credit has merely accelerated by a short time period the acquisition of durable goods by the average family. The $2,840 annual income of the average (median) spending unit in the United States leaves little excess above necessary day-to-day expenditures, payment of taxes, and provision for the future. It is no reflection on the average person to point out that the small remaining margin is spent for something of immediate benefit instead of being set aside to be accumulated until enough is available in cash to purchase a major durable good at some future date.

When a family acquires durable goods through the sound use of instalment credit, and meets those instalment payments through the regular budgeting of income, it subjects itself to a form of family discipline which is excellent in and of itself. Few families would submit to such discipline except to reach an important goal, and few would stick to it without the stimulus of possession and use of the durable good.

The Role of Consumer Finance Companies

Consumer finance companies (sometimes called small-loan companies) provide credit both for the purchase of specific articles and for the consolidation of debt and other emergencies. The figures already cited indicate how large a proportion of the entire population has little reserve for a rainy day. Such loans enable the family to remain solvent, and avoid severe privation or harassment from numerous trade creditors. Without such a loan, an emergency or illness which disrupts income temporarily, or just ordinary bad judgment which overloads the current pay cheque, would put the family out of the consumer's market to a marked degree. Sound refinancing with an instalment loan enables the family to budget its way out, restores its confidence, and permits it to continue its normal and necessary purchases as a part of the mass market.

In rendering this service, consumer finance companies compete, to a certain degree, with credit unions and banks. In the United States, credit unions give no indication of a rapid growth in membership in the foreseeable future. The number of credit unions is large, but the

average assets are small. Those credit unions which have grown to great size have secured their growth primarily through the financing of durable goods, notably automobiles, for their members.

Why Banks and Small-Loan Companies Are Not Directly Competitive

When banks first began to make instalment cash loans to consumers, they made considerable inroads into the business which consumer finance companies had had. They drew to themselves the share of the market which they might always have been serving. The extent to which a bank secures that share of the market depends, of course, upon a number of factors, such as the effectiveness of its advertising, the ability of its personnel and that of the consumer finance company, and the adequacy of the service of the two. When the banks have secured "their share" of the market it becomes uneconomic and undesirable for them to attempt to serve the share of the market which can be more properly served by the consumer finance company.

The consumer finance company was created through the efforts of social workers, for the purpose of providing a legitimate source of cash credit in moderate amounts for consumers. That background is important as it explains the necessity for the rate of charge permitted in the laws. The rate must permit an efficient manager of a small loan to advise an involved borrower, to tailor the loan and its terms to fit the borrower's needs, and to apply the appropriate pressure to aid in his financial rehabilitation. Small loan rates of charge are designed to permit the necessary outlays to insure complete investigation, servicing and collection of loans, including the smallest loans. The actual dollar cost of these services is such a high percentage of the small dollar amount of the loan that the original cost of making the loan cannot be recovered at regular bank interest rates. Thus, there is an area of the consumer credit field, including all of the smaller loans, but more particularly determined by the character of the borrower and his needs, which consumer finance companies alone can serve effectively.

Banks cannot effectively serve that area for two reasons: (1) such loans require a higher rate of charge than is usually allowed banks; (2) the bank is distinctly limited in the degree of risk which it can take, since its primary responsibility is to its depositors. From them it receives 90% or more of its funds, largely on a demand basis. There is a relatively small area of overlap in which the two types of institutions appropriately compete.

In the United States at least, the banks have now taken over essentially the entire share of the cash loan field which they can serve most effectively. This conclusion is based upon the failure of banks generally to materially increase their share of the total cash loan business in recent years, as compared with the pre-war period. [1]

[1]Comparable figures are not yet available in Canada.

Of course, any single community may be in any stage of development.

The Outlook for the Future

Neither the optimistic nor the pessimistic forecasts of business conditions in North America give us cause for alarm with respect to the immediate future. About the more distant future we can speak with less certainty. Can our remarkable economic progress be continued? Can we attain shorter working hours, higher real incomes, and ever higher standards of living? There have been at least two basic studies which say we can, *if* we avoid a major depression, *if* we remain at peace, *if* we continue to increase productivity per man-hour (by about 2% per year as we have in the past), and *if* the benefits of higher productivity are passed on to the masses. [2]

We must recognize that we will continue to have minor depressions, because the characteristic of a dynamic economy is change. Depressions cannot be prevented. Their severity can be lessened, their duration can be shortened. If we tried to eliminate all fluctuations, we would have to substitute a controlled economy for economic independence. In doing so, we would quench the driving force of individual freedom which is one of the chief factors in bringing about progress.

How Higher Living Standards Can Be Attained

To obtain increasing productivity, it is essential to replace obsolete plant and equipment rapidly, increase standardization and operating efficiency, and secure increasing co-operation from workers. The greatest single requirement is a progressive increase in the efficiency of workers. A fixed unchanging monetary unit, and fiscal stability are also essential. The latter implies a level of taxation which does not destroy business incentive. Such a level of taxation will be difficult to attain in view of the belief in some quarters that we cannot have too much education, too much health, or too much security, regardless of the cost of the required welfare program.

To attain a reasonably steady progress toward higher standards of living, it is also essential that mass demand be sustained and progressively expanded. The benefits of higher productivity must be diffused throughout the entire population, to accrue to a large degree to those in the lower income brackets, since the only permanently expansible markets are those found in the unfulfilled wants of the mass of the population.

The Impressive Growth of Consumer Credit

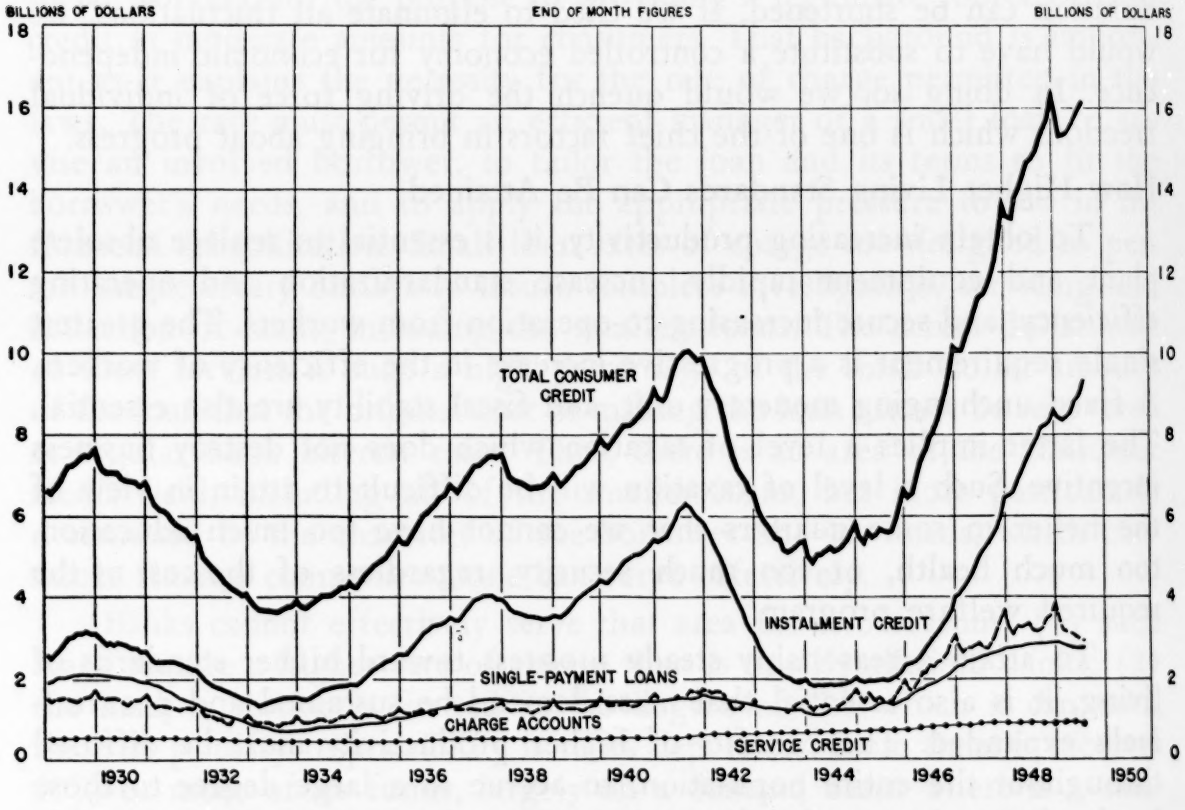
What part does consumer credit have to play in sustaining these mass markets? Available evidence indicates that total instalment credit

2 *America's Needs and Resources,* Twentieth Century Fund, 1947, and *Controlling Factors in Economic Development,* Dr. H. G. Moulton, Brookings Institute, 1949.

in the United States grew reasonably steadily from its origin to a figure of about $3 billion in 1929. In the early 30's, it was cut in half. Then in the next few years outstandings rose rapidly to about $6 billion in 1941. The growth until 1941 was the growth normal to a new industry.

Few people realize how impressive the rate of growth between 1933 and 1941 was when outstandings quadrupled within an eight year period. People are more impressed by the very sharp growth since 1945. But what appears to have been a very sharp growth since the war was only a catching-up process, and actually reflects only a portion of the inflation of prices, the growth in poulation, and the increased productivity of the country.

At the end of April, 1950, total instalment credit outstanding in the United States was estimated at about $11 billion as compared with the 1941 peak of about $6 billion. However, today, that total represents 5.8% of personal income after taxes of about $190 billion, whereas in 1941 total outstandings were 6.5% of personal income of $92 billion.



There is every reason to believe that the total of outstanding consumer instalment credit will continue to grow in the coming years. That increase will come chiefly in the field of instalment sale credit in the immediate future, as it has in the last two years. At the present time the proportion of sales on time of durable goods, including automobiles, has practically returned to the pre-war relationship. As a result, outstandings of sale credit will increase less rapidly as repayments grow and approach the amount of new credit extensions.

During the fall of 1948—for the first time since the end of the war—consumer finance companies in the United States experienced an interruption in the continuous growth of loan account. This interruption has been accompanied by resumption of a seasonal pattern in volume of loans granted and of repayments. That return to a seasonal pattern reflects a similar development at about the same time in most lines of retailing. This seasonal pattern can be expected to become more pronounced as time goes on.

The demand for cash instalment loans will continue to increase at a moderate rate in the immediate future and over the long run. There is every reason to believe that small loan licensees, credit unions, and banks alike can expect a slightly increasing demand for money for consolidation of debts, for health and emergency needs, and for other important purchases and services. This growth should be commensurate with the increase in national income.

Consumer Instalment Credit and the Economy

Since instalment credit has transformed the character of our standard of living, it follows that it has shifted demand from some nondurable goods and services to certain durable goods. It is also correct to say that instalment sale credit has brought about an increase in real income: (1) through the shift in demand to the preferred articles; (2) through the reduction in prices which mass demand and mass production have made possible.

Over short periods of time, instalment credit can also increase the purchasing power of the individual and of the economy. In other words, the *net increase* in instalment sale credit during any particular year is an addition to the purchasing power of the economy in that year. The *total* amount of credit granted during the year is used in the purchase of particular articles, but that is offset by repayment of credit granted in prior years.

When we recognize that fact, then we are in a position to appraise the impact of consumer credit upon the economy. In recent years, personal income after taxes in the United States has been about $2 billion per year. Therefore, the stimulative effect of instalment credit has been in the magnitude of 1% of personal income.

The importance of the decrease in instalment credit from its peak in 1929 to its nadir in 1933 can be appraised in the same manner. The decrease over the period averaged about one-half billion dollars per year. In those years the gross national product decreased from $104 billion to $58 billion; personal income after taxes declined from $82 billion to $48 billion; and personal consumption expenditures from $79 billion to $49 billion. The decrease in instalment credit in those years ranged between ½ of 1% and 1% of the various income measures. Stated differently, the decrease in instalment credit amounted to from 3 to 6%

of the annual decrease shown in these various income measures. It cannot therefore be claimed that the repayment of outstanding credit is a *significant* drag upon the purchasing power of the community and thus an important intensifying factor in the downswing of a cycle. Furthermore, since the degree of contraction in consumer credit which has occurred in recessions has been small in comparison with the contraction in expenditures for consumer durable goods, in expenditures for consumer non-durables and services, and in expenditures for producer durable goods and construction, instalment credit can hardly be singled out as an intensifying factor.

The Necessity of Making Sound Loans

Daniel Webster once said, "Credit has done a thousand times more to enrich mankind than all the gold mines in the world." But credit can also create problems.

The borrower-purchaser faces the problem of avoiding the misuse of credit which leads to overburdening debt, worry and misery. To avoid its misuse, he should ask and answer these questions: If I sign this contract, of what shall I have to deprive myself,, and my family, until the contract is fulfilled? Will I be able to make the required payments? How important is this use of credit? Is it necessary to meet an emergency? Is it for necessary goods of lasting value? Is it for a luxury? Are the cost and increase in debt really worth it?

From the point of view of the creditor, the identical problem takes the form of attempting to insure that every credit extension is sound. No businessman intentionally extends credit which he does not expect to be satisfactorily repaid. Lenders, generally, have had an excellent record in this respect. It has been only during a period of widespread unemployment, like the early 30's, that a significant proportion of *soundly made* loans has become delinquent.

Today, and in the years ahead, it is desirable to emphasize the paramount importance of a careful determination of the ability and willingness to pay of the borrower or of the purchaser of goods. During the war and immediate post-war period, many sellers and lenders became careless in this regard. With the reappearance of unemployment they have again become aware of the importance of this principle.

Conclusion

If, and only if, cash lenders and sellers alike apply sound standards in the evaluation of each individual instalment loan and sale credit, will the total volume of consumer credit remain sound. Then, no matter how large that volume becomes, it can have only one result: to contribute to healthier, happier, more effective living throughout the land, enabling more and more consumers to realize their hopes, their dreams, their ambitions!

Labor and Management Approach Bargaining Maturity

Wallace H. Clark
Director, Industrial Relations Division
Ford Motor Company of Canada, Ltd.

Mr. Clark looks at present views of labor and management, clarifies a frequently misunderstood objective of labor unions, and by analyzing the experience of his own company points out the areas in which labor-management rights will probably be more closely defined in the future.

WE are going through a period when big business appears to be suspect. There are those who would have us believe that every company, and particularly every large company, is a cold-blooded, inhuman corporate monster concerned solely with profits without regard for the human factors involved in its operations. This picture is fantastic and unreal.

The Case For "Big Business"

The truth is that there are good corporations and bad, just as there are good and bad men, and that no corporation is automatically either good or bad. The nature of a business organization depends upon the wisdom, the skill, and the character of those who direct its destinies—from senior members of management who establish and administer policies, and have most to do with shaping the personality of the corporation, to first-line supervisors. A corporation is "good" when it fosters those harmonious influences which make possible full production in industry; it is "good" when it has strong and wise management by men who are not so preoccupied by their immediate skills and tasks as to lack a lively awareness of all of the problems of running a business, and particularly those having to do with human beings.

This is a time when it is easy, apparently, to forget that our big industrial organizations are an all-important factor in the total economic strength of the country. They maintain and protect the livelihood of thousands of our citizens and their families. They process the food and produce the clothing, the shelter, and countless other essentials of living for a huge part of the population.

"Bigness" in industry has been of tremendous benefit to the people of this continent. "Bigness" of Ford and General Motors and Chrysler,

for example, has made possible the production of many millions of motor cars at prices within the reach of a large section of the population. Even the lowest-priced car would be much too expensive for most of us if it were not made by mass production methods.

Far from being the shameful thing that many honest and influential citizens have somehow, unfortunately, come to believe, large strong companies have contributed significantly to human progress.

The Responsibilities of Management

Most executives recognize that while on one hand they have a responsibility to keep their companies strong, they have on the other hand a responsibility to provide for their workers a good working environment, with everything that this implies, both physical and emotional. The more progressive corporations on this continent have gone a long way towards discharging this responsibility, but there is still tremendous room for improvement. That improvement will come when the men of management, at all levels, train themselves to think of the implications of their acts and decisions upon all of the people affected by them.

Promotion from Within

One of the most important phases of modern management is to see to it that management itself is constantly strengthened and kept vigorous by an upward movement through our organizations of men of ability from the ranks. If each corporation is to continue to be strong, and is to be maintained as a useful social element in the community, it must recognize and reward ability wherever it is to be found.

Business life has clearly set out the principle of rank and status. This is evidently necessary to provide people with the necessary motives to excel, by striving for positions of greater prestige and influence and for greater rewards for themselves and their families. Such motivations are needed to equip our industries, our businesses, our institutions, our community and our country with responsible leadership organizations which coordinate our lives and bring the cooperative efforts of everyone to their best fruition.

Training of Workers

The worker must be equipped with the kind of training that is necessary for him to have the ability and the desire to climb step by step up the ladder of opportunity. There is a wide open field here for the constructive leadership of businessmen. Ford of Canada believes it has made a promising beginning through the influence of the company trade school, indoctrination training for new supervisors, work simplification training, and so on. Future plans call for attacking the problem in other ways.

Most vital of all management's responsibilities, perhaps, is the continued improvement of understanding and the maintenance of workable relationships with its organized employees.

What Unions Are Really Working For

Most of us need no reminder that the balance of social forces which makes possible large-scale production is often delicate. There are occasions when the influence of union decisions is as potent as the influence of management.

Dr. Sumner H. Slichter, of Harvard University, has pointed out that the world is witnessing, for the first time in its history, a situation in which large bodies of the population are highly organized for the purpose of making bigger demands upon the economy. It is his opinion that what the unions are really demanding is a more rapid increase in production. He says: "I don't think they have thought about it that way—they think there is someone else from whom they can take it away."

If Dr. Slichter is correct, and he is convincingly logical, then this is an important factor in the problem of maintaining the productive balance. In other words, if unions are demanding both more money and a higher standard of living without realizing that the only way to get them is to produce more, then this failure of understanding is a potential source of trouble for everyone.

What Lies Ahead in Industrial Relations

Unions naturally look at most of the happenings of day-to-day business experience in an entirely different light from that of management. What can we expect in our future relationships with the unions?

The Rand Formula

The difference in viewpoint becomes most apparent whenever the question of company and union security comes up for discussion. The management of Ford of Canada sincerely believes that what has become known as the "Rand Formula" provides a sound working basis for the relationships between the company and the union. This formula, which has been in force since early 1946 but has never been put to the test, guarantees the financial security of the union, but also imposes a very real responsibility upon the union. In other words, Mr. Justice Rand endeavoured in this formula to provide for both company and union security.

The Rand Formula provides for a compulsory check-off applicable to all employees in the bargaining unit. The check-off is subject to the following conditions:

1. No strike, general or partial, may be called by the union before a vote by secret ballot, supervised by an officer of the Department of Labour for Ontario, has been taken of all employees in the bargaining unit.
2. The union repudiates any strike or other stoppage which has not been called by the union after being so authorized; and must declare any picket line set up in connection with such a strike

illegal and not binding on members of the union. Repudiation and declaration must be communicated to the company in writing within 72 hours after the stoppage or the forming of the picket line.

3. Any employee participating in an unauthorized strike not called by the union is liable to a fine of $3 a day for every day's absence from work and to loss of one year's seniority for every continuous absence of a calendar week or part thereof.

4. If the union violates this part of the agreement, either by declaring an unauthorized strike or by failing to repudiate one, it is liable to the penalty of a suspension of the check-off.

Time and again in the past year or so, the union has taken the position that they want to get rid of the Rand Formula and substitute for it a provision for a union shop, which they describe as "union security." They would delete from the contract the existing clauses which impose certain responsibilities on the union.

Management's Right to Manage

There is abundant evidence that the unions intend to do their utmost to cut down the area of management rights. They will try to limit management's right to manage. The reservations-to-management clauses[1] in the Ford Motor Company's agreement with the U.A.W.-C.I.O. are no longer palatable to the union. The union leaders think they are too specific. The Ford management, on its part, feels that loss of the reservations set out in these clauses would endanger the long-run welfare of the business. Like many other managements, Ford company officials have been adamant on this point, but they know they have not heard the last of it.

Management's Concessions

As Neil Chamberlain pointed out in a recent article in *Fortune* magazine, the right to manage does not necessarily involve a duty on the part of others to be managed. People can be managed and directed only with their own consent. In other words, in all phases of its dealings with the social group called the union, management needs the cooperation of the union members if its rights and prerogatives are to mean anything. Man-

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[1] *Reservations to Management*

"The union recognizes the right of the company to hire, promote and demote, transfer, suspend or otherwise discipline and discharge any employee, subject to the right of the employee concerned to lodge a grievance in the manner and to the extent herein provided.

"The union further recognizes the right of the company to operate and manage its business in all respects in accordance with its commitments and responsibilities. In addition, the location of plants, the products to be manufactured, the schedules of production, the methods, processes and means of manufacturing are solely the responsibility of the company. The company also has the right to make and alter from time to time rules and regulations to be observed by employees, which rules and regulations shall not be inconsistent with the provisions of this agreement."

agement bargains on many things today which it would have refused to discuss with the unions a few years ago, and no one can tell what further change of attitude may be necessary in the years ahead.

To live amicably with the unions, it is essential that everyone in management bears in mind that the union, like management itself and like all businesses, is a living, growing, constantly changing organization. Company officials must beware of resisting changes sought by the unions, merely because the world appears to them to be an eminently satisfactory place as it is, or because they do not relish change that originates with a union.

While members of management may feel free to criticize some of the methods and some of the philosophies of unions, they are generally convinced that unions have a job to do and that, on the whole, they exert a useful influence upon our economy and our society.

No discussion of labor-management relations would be complete without some reference to the place of government in the picture.

The Role of Government

It is the function of government to set down the *general* rules under which collective bargaining and the productive association of management and labor takes place. These rules must be "general" because it simply is not possible to legislate the details of this relationship.

Criticisms of Bill 195

There is ample evidence all around us that effective legislation to set the stage for collective bargaining is extremely difficult to write. For example, the unions in Canada are very critical of Bill 195[2], which they would have one believe is inadequate legislation. Nor is management much better satisfied with this Act than is organized labour, although for different reasons.

Weaknesses and Limitations of the Governmental Function

Legislation regulating collective bargaining should provide for checks upon the misuse of power by either party, and these checks should be enforced. The failure of governments in Canada to make these restraints effective in the past has undoubtedly promoted a widespread disrespect for law and order in this country. It is common knowledge that

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[2] The Dominion labor code, The Industrial Relations and Disputes Investigation Act, came into force in September, 1948, and applies only to industrial undertakings over which the federal government has jurisdiction.

This Act defines the legal rights and responsibilities of employers and trade unions, provides machinery for the certification of bargaining agents, and provides facilities for the mediation of labor disputes between employers and bargaining agents.

Virtually the same code, with minor modifications, was adopted by the Ontario government to deal with industrial relations and disputes within the provincial sphere, and was proclaimed in force in December, 1948, as The Labour Relations Act, 1948.

a rule which is not enforced is no rule at all; and a law which is not enforced is just so much useless verbiage on the statute books.

It is always tempting to believe, contrary to all human experience, that people can be legislated to behave the way you want them to behave. It is tempting to believe that it is possible to legislate peace and harmony in industry. It is tempting to believe that government can maintain the productive balance between management and the unions. In cold, hard fact, however, such things are not possible. Apart, then, from a duty to prevent the misuse of power and to maintain order, the role of government in such matters must remain the role of an interested spectator, albeit a spectator of considerable influence.

Conclusion

In dealing with human relations in industry, it is natural to concentrate on the problems—not on the achievements. On this continent it is sometimes forgotten that, despite the never ending variety of problems which press in upon us in our daily business life, we are the envy of other peoples throughout the world.

This envy is often thought to be of our productivity; of the material comforts with which we surround ourselves. It is associated with our ingenious machinery, our skillfully organized assembly lines. Other peoples envy what they sometimes call our "know-how".

"Know-how" is usually taken to be something we on this continent know about making things. Yet, what is it we make that other people cannot make? The answer is nothing. Does "know-how" then refer to our methods? This is not likely. There is no secret about our methods—people come from all over the world to study and copy them.

Our "know-how" is the envy of the world primarily because we on this continent, despite our strikes and our differences, have learned more about cooperation between management and employees than any other productive people.

Whether or not we are able to produce today and tomorrow will depend, not upon outside sources; not upon government; not upon mechanical processes; not upon philosophies — but upon the simple human relationships that exist from day to day and from hour to hour between the individuals of management and the individuals who are responsible to them.

BOOK REVIEWS

BUSINESS IDEAS HANDBOOK. Prepared by the Editorial staff of Prentice-Hall, New York; Prentice-Hall Inc., 1949; 666 pages.

This book is unlike many other business books in that it does not deal with generalities, principles, theories, or business truisms. It has no central theme but consists exclusively of tested business ideas that have proved to be profitable in business organizations.

In the *Handbook* ideas are offered on office management, accounting, advertising, sales management, credit and collections, and purchasing. In the fields dealt with, the ideas of many specific companies are outlined in enough detail to make it possible to set up a similar practice in almost any organization. Office management ideas concern increasing filing efficiency; cutting costs in the use and printing of forms; improving the operations of the typing, correspondence and mail departments; economizing through duplicating processes and equipment; and accomplishing savings in the communication of messages.

Accounting ideas include short cuts and increased accuracy in figure calculations, setting up pay roll records, saving time and labor in accounting procedures, and speeding up reports for executive control. The advertising section discusses getting the most out of direct mail advertising; improving point-of-sale and window displays; setting up better newspaper, card and outdoor advertising; making radio and television pay; and cutting advertising costs. Aids to sales managers include ideas on quotas, judgment chart aids, salesmen's training plans, sales education programs, contests, "Merit Clubs", and many others. Credit and collection ideas consist of modern procedures for granting retail and instalment credit, for speeding up collections, and for writing letters that collect the money and keep the customer. Helping the purchaser buy for profit it the central theme of the purchasing ideas presented.

All the suggestions are aimed at saving time, cutting costs, or increasing employee satisfaction. Only ideas with a broad adaptability are given so that they can be applied to a small, medium or large firm; but each specific idea must be adapted to fit a particular situation since the detailed description will not fit all cases. For example, all of the ideas advanced in the "effective payroll records" chapter could not be applied to a small company because of the cost of the proposed machines; however, the basic principles might be applied.

The *Handbook* is written in clear, concise language and includes specific illustrations where necessary. It is extremely useful for any executive who wishes to set up a new system in the areas treated, or who desires to improve the present one.

—G.M.

BOTTOM-UP MANAGEMENT. By William B. Given, Jr.; Harper & Bros., New York, 1949; 171 pages.

Bottom-Up Management presents current opinion on management-labor relations with concrete references to an industrial organization with which the author is intimately acquainted.

The central theme of "bottom-up" management is that executives of the business attempt to release the thinking and encourage the initiative of everyone beneath them, so that ideas and the impetus for them flow from the bottom up. All employees are encouraged to make decisions and initiate situational action, always conscious that failure will not harm them in the eyes of their superiors. The ultimate goal is to give employees a sense of participation rather than one of frustration.

If management treats every suggestion or idea with respect, the employees gain a feeling of being important in the company. When and if changes are made, every employee will feel that he has a personal stake in the change and will work conscientiously to make the change work out successfully. Management's goal should be a company policy established and supported by everyone in the organization as if it were his own.

The essence of bottom-up management is teaching rather then telling, and the free exchange of ideas and suggestions among all members of the organization. The success of the plan will be measured by the spirit of freedom which develops among the employees.

Modern management must learn to study workers as individuals rather than as collective groups. The emphasis must be placed on the person, with an individual temperment, individual needs, problems, hopes, fears, skills and abilities. This attitude comes from the heart, not from technical or cultural "know-how". The company should also be conscious of the influence of its actions and its working conditions upon the community, for if it participates constructively in community activities, the working force will be a happier one. Employment should be made as secure as possible, because a man's job is his most important investment and therefore exerts a greater influence on him and his family relationship than all other factors. It is management's job to do all in their power to contribute to the well-being of the people working for them.

Bottom-up management is a continuing process and is still evolving as a management philosophy. It is not a technique that can be adopted and put into effect tomorrow, but must be developed and tailored to individual needs. The rewards in the long run will justify the effort expended.

Mr. Given's description of bottom-up management in his company is concisely and forcefully presented. His philosophy is not a new one

today because much has been written in recent months in the same vein. What is important, however, is that his book indicates the trend in progressive management today; the recognition of workers as people, as individuals rather than payroll names and numbers. In view of the increasing demands by labor for a greater measure of employment security and recognition as a member of the productive team, Mr. Given's book is a timely and well written presentation of an answer to this current need.

The only criticism that may be offered is that Mr. Given has tended to place too much emphasis on a seemingly paternalistic attitude, especially regarding the company's effect on community and family life. It is possible that he is overly influenced here by a condition related to the operation of his own company—not of companies in general.

—D.G.S.

EFFECTIVE SELLING. By Breen, Thompson, and West; Harper & Brothers, New York, 1950; 278 pages.

This recent publication on salesmanship sets forth the job and the desirable personal characteristics of the average salesman. While directed primarily toward college students, the book presents much information which would be of interest to the active salesman. Emphasis is placed upon the necessity for a knowledge of the uses, features, and specifications of the product and also of the distribution policies of the company behind the product. The authors stress the dangers of the so-called stereotyped standardized sales presentation. Each presentation must be designed to satisfy the personality and experience of the salesman, his product, and his prospect. With this in mind, a lengthy discussion suggests five important factors which should be considered in performing a sale: (1) the approach, (2) the appeal to arouse interest, (3) the explanation as to how the product can satisfy the prospect's needs, (4) conviction, and (5) the close. The importance of finally closing the sale is particularly stressed.

Emphasis is placed upon the necessity of a follow-through on the sale to create customer goodwill and further orders. The ethics of the salesman must be superior to those just necessary to fulfill the demands of the law; good salesmen go beyond the principal of *caveat emptor.*

College students and recent graduates considering selling as a vocation should find the latter part of the book invaluable. The hiring and training policies, the types of customers, the jobs themselves and their compensation and promotional possibilities are surveyed at the manufacturer's, wholesaler's and retailer's levels. The field of selling intangibles and services is also included. One chapter discusses the possible errors on the first job and, of more importance, how to avoid them.

Final chapters are concerned with the student's task of choosing an employer, selling his own services to a prospective employer, and meeting his supervisor and fellow workers. Many objective questions are presented, so that the reader may determine if his aptitudes are those which would tend to indicate success in the field.

Excellent short cases on actual selling problems following each chapter provide interesting topics for discussion. In addition, there are many extensive bibliographies which are of great help for the reader who is interested in going farther with a certain phase of the book. This is a book written in an informal, easily digestible way, with no lack of wit in certain instances. It is not intended to cover marketing principles or problems in sales management; it is a story of the salesman and his job.

—S.K.

THE INTELLIGENT INVESTOR. By Benjamin Graham; Harper & Bros., New York, 1949; 276 pages.

Mr. Graham has, in this book, set forth an outstandingly concise and well-founded guide for the security-minded. His approach to the subject is most direct and his reasoning sufficiently simple for even the most uninformed to comprehend. Graham has avoided the interjection of learned, pseudo-scientific terms and phrases so distressing to the non-professional investor and, as a consequence, has produced a treatise worthy of investigation and consideration by all within the financial community. The layman, in particular, has been provided with a most valuable service for it is to this group principally that the author directs his words.

The principles of investment contained in the book are sufficiently broad to stimulate the reader's imagination rather than to lead him to believe that Graham's gospel is incontestable and a positive guide to inevitable profit in security transactions. The author sets out these principles in an attempt to assist the reader in the formulation and adoption of a personal investment policy. Ignoring entirely the speculator, Graham directs his principles to those who are engaged in investment operations which, "upon thorough analysis, promise safety of principal and a satisfactory return."

Graham suggests that there are two types of investor—the defensive investor and the aggressive or enterprising investor. The investment policy of the former is formulated on the premise that safety as well as freedom from bother is of paramount importance in the establishment of a portfolio. For this person, it is suggested that the funds available for investment be distributed almost equally between United States Savings Bonds and a diversified list of leading common stocks.

Graham feels that, at the present time, the additional return on corporate bonds and preferred stocks over and above the rate paid on Federal Savings Bonds is insufficient to warrant their purchase by either the aggressive or defensive investor. The diversified common stock holdings are suggested for the defensive investor as insurance against inflation, as well as for the better than average return on the capital invested. If the investor does not command sufficient capital to finance the purchase of some twenty diversified common stocks, Graham suggests the purchase of the stock of an investment fund. For common stocks Graham suggests these criteria: the shares of a prominent, conservatively-operated company which has paid regular dividends since at least 1936 and whose price is reasonable in relation to the average earnings of the past five years.

The aggressive investor's chief interest is in a better than average return on his investment or an appreciation of the principal amount or both. Graham suggests three methods of attaining this goal: (1) buying cheap and selling dear, (2) purchasing growth stocks, and, (3) bargain purchasing. He warns, however, that only the investor with sufficient time and interest to make a comprehensive study of the market can hope to achieve the desired gains.

In summary, Mr. Graham offers a fully comprehensive study, tempered by his own personal opinions. It would benefit every active or prospective holder of securities to familiarize himself with Mr. Graham's theories of investment.

—E.H.J.

PROBLEMS IN PERSONNEL ADMINISTRATION. By Richard P. Calhoon; Harper & Bros., New York, 1949; 540 pages.

There are few books in the field of personnel administration which deal with the problems of personnel management from the viewpoint of human relations; as a result they are frequently ponderous and tend to be boring. Mr. Calhoon, in his book, *Problems in Personnel Administration*, has solved this difficulty by placing the emphasis on problem analysis, problem handling and the actual administration of the various personnel functions.

The first few chapters deal specifically with the place of personnel administration in the business world and in the operating organization. These will be of special interest to the newcomer in the field, bringing him a challenge as well as a clearer insight into the problems he will meet. To the personnel director these chapters will bring a new and refreshing viewpoint on his profession.

Although primarily written for the members of the personnel department, Mr. Calhoon's book deals with many subjects which are of

interest to general management. Such chapters as those on grievance handling, labor and social legislation, collective bargaining, and most of the later chapters will be found well worth perusal by management. Many of these subjects are not necessarily the primary responsibility of the personnel director, and Mr. Calhoon points out the desirability of co-operation here between the personnel department and other members of management.

This is a book in labor-management relations as well as in personnel administration. Subjects such as wage and salary administration, work load, and collective bargaining are emphasized to a much greater extent than is the case in most books on personnel administration. Mr. Calhoon stresses the role personnel administrators should play on the administrative level, decrying the perfunctory performance they too often give in many firms.

The fact that many supervisors and foremen are both agents of the personnel director and members of management is frequently forgotten by businessmen. The author handles this subject well and management will find his outlook here most valuable.

Mr. Calhoon, now Professor of Personnel Administration at the University of North Carolina, has had a good deal of practical experience in his field, having been personnel director of a U.S. manufacturing firm before taking his present position. During the writing of his book Mr. Calhoon conducted an extensive survey of personnel administration practices, and his findings are reported throughout the chapters of his book. Turning still further toward the practical side of the picture, Mr. Calhoon has included problems, projects and demonstrations for classroom use. The inclusion in one volume of both teaching materials and actual company practices makes his a worthwhile book for student and businessman alike.

—M.R.H.